

**“Form 990 – Getting Started” Sessions**  
**CASE STUDY FACTS (7/21/2009)\***

**BACKGROUND**

Exempt Organization for Disaster Relief (“EODR”) is a public charity that was formed and began operations on February 1, 1997. It is an accrual method taxpayer that reports on a calendar year basis. EODR is a Louisiana nonstock, nonmember, nonprofit corporation that is registered to solicit charitable contributions in three states (Louisiana, Mississippi and Florida). It is not a member of a group ruling. It received its determination that it is an organization described in section 501(c)(3) and is not a private foundation. It is governed by a board of directors.

For its tax year beginning January 1, 2008, EODR had gross receipts of \$6.2 million, total expenses of \$5.35 million, and total assets of \$2.4 million. On its Form 990, EODR allocates its total expenses among program service, management and general, and fundraising on a reasonable and consistent basis from year to year.

EODR uses an outside, independent accounting firm to prepare audited financial statements. EODR has an audit committee that selects an independent accounting firm and oversees the audit. EODR prepares its own Form 990. Audits are required under the Single Audit Act and OMB Circular A-133 as a result of federal awards made to EODR, and these audits have been completed.

**EODR’s MISSION AND PROGRAMS**

EODR’s mission, which was approved by its board of directors, is to provide disaster relief to those persons located in Louisiana, Mississippi, and Florida. Eighty-five percent of the organization’s program service expenses are devoted to identifying disaster relief areas, and organizing and training teams of volunteers to provide and arrange for food, water, medical assistance, transportation, and shelter at disaster sites.

Fifteen percent of the organization’s program service expenses are devoted to educating the public on disaster preparation and response. The organization finances its operations primarily through contributions from the public and government grants. It does not participate in any federated campaigns or conduct fundraising or gaming events, but it solicits charitable contributions by telephone, mail, and the Internet through its staff and through arrangements with professional fundraisers. Most contributions are cash contributions, although EODR did receive \$35,000 in noncash contributions of automobiles, food, clothing and household goods during 2008.

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\* This hypothetical case study is for educational purposes only, and is not intended to establish IRS position or practice or to be relied upon or cited as precedent.

EODR's key financial numbers for 2008 are as follows (financial numbers for 2007 are in brackets):

- Government grants (\$800,000) from multiple governmental units during the year, the largest of which was \$125,000; total contributions from the public (\$5,000,000); and a noncash contribution portion of public contributions (\$35,000), including \$15,000 of clothing and household goods, \$10,000 of food, and \$10,000 of automobiles (including three cars valued at over \$500 which EODR used to pursue its exempt purposes, and for which it filed Form 1098-C) [2007 Contributions and grants - \$6,100,000].
- Assistance provided to:
  - Governments and organizations in the US - \$300,000 [\$400,000]
  - Individuals in the US - \$2,400,000 [\$3,000,000]
- Investment income (dividends and interest) of \$170,000 [\$220,000]
- [2007 Other revenue (Part VIII, column (A), lines 5, 6d, 8c, 9c, 10c and 11e) - \$233,000]
- Fees paid to professional fundraisers - \$115,000 (\$111,000 to one professional fundraiser and \$4,000 to another) [\$122,000]
- Compensation paid to officers, directors, trustees and key employees (including all fringe benefits and deferred compensation, per financial statements; excluding pension contributions) - \$448,000
  - Pension contributions for such persons - \$15,000
- Compensation paid to other employees - \$1,050,000
  - Pension contributions for such persons - \$150,000
- Fees for services (former chief executive officer ("FCEO")) - \$165,000
- Payroll taxes - \$170,000
- [2007 Salaries, other compensation, employee benefits (Part IX, column (A), lines 5-10) - \$1,778,000]
- Office expenses – \$202,000 (including \$24,000 related to production of advertising revenue)
- Depreciation - \$35,000
- Payments to real estate management company (through DLLC) - \$300,000
- [2007 Other expenses (Part IX, column (A), lines 11a-11d, 11f-24f) - \$768,000]
- Cash - \$190,000 [\$75,500]
- Receivable from FCEO - \$10,000 [\$10,000]
- Land (\$700,000); buildings (\$840,000); equipment (\$560,000) [\$559,500]
  - Accumulated depreciation - \$1,200,000 [\$1,165,000]
- Investments – publicly traded securities – \$1,300,000 [\$1,410,000]
- Federal unrelated business income taxes due - \$3,000
- Accounts payable and accrued expenses - \$150,000 [\$445,000]
- Grants payable - \$450,000 [\$750,000]
- Bank loan - \$200,000 [\$160,000]
- [2007 Unsecured loan on line of credit - \$233,000]

- Other liabilities - \$100,000 [\$195,000]
- Unrestricted net assets- \$1,497,000 [\$647,000]

EODR is affiliated with three other organizations, as follows:

- DLLC (EIN 99-0000001), a Florida limited liability company formed in 1999, of which EODR is the sole member; DLLC owns the office building which serves as the headquarters of EODR. DLLC is a member managed company and does not have its own separate board of directors. EODR does not have any written policies or procedures governing DLLC, but does appoint and oversee DLLC's manager and approve its budget. CEO serves as the chief executive officer of DLLC but is not compensated by DLLC for providing such services. DLLC engages the services of a real estate management company (REMC) to manage the office building. The \$300,000 management fee paid to REMC for 2008 was not reported on a Form 1099-MISC. EODR regularly transfers cash to DLLC so that DLLC may fund its operations.
- Joint Venture ("JV"), a Louisiana partnership formed in 2004, of which EODR is a 50% managing partner; the other 50% is owned by another section 501(c)(3) organization. JV operates a relief facility in Louisiana. The partnership agreement provides for 50-50 allocations of all partnership items. EODR did not make any contributions to the capital of, or receive distributions from, JV for 2008. JV operates out of a portion of EODR's office building, and pays EODR an annual amount of \$200,000 to cover use of the facility. JV did not significantly alter its operations during the year.
  - JV also sells advertising space in its publication, which is an unrelated trade or business with respect to EODR. EODR's 2008 shares of gross unrelated business revenue and net unrelated business taxable income from this activity were \$30,000 and \$6,000, respectively. EODR remains liable for \$3,000 of unpaid, unrelated trade or business income taxes from this activity for 2008 and prior years. EODR plans to file a Form 990-T for 2008.
- REO, a social welfare organization described in section 501(c)(4), which conducts a relief operation outside the United States. REO is a Louisiana nonprofit corporation. Three of EODR's board members serve on REO's five person board. REO operates out of an office building it rents from a party unrelated to EODR or REO in Louisiana. EODR and REO do not share office space or employees, and do not engage in any transactions or business relationships.

EODR did not engage in any political campaign activities, lobbying activities, or activities outside the United States, directly or indirectly through DLLC or JV during 2008. EODR does not maintain any donor advised funds or similar funds or accounts, and does not maintain any endowment funds.

EODR has 85 full-time and part-time employees and during 2008 received services and assistance from an estimated 350 full or part time volunteers. EO filed all required federal employment tax returns.

EODR's board of directors consists of ten individuals:

- Board Chair – Dr. Herbert Hellebore
- Chief Executive Officer (“CEO”), Ms. Belle Hood, who is also the organization’s Executive Director
- Vice Chair – CFO, Ed Stanton, who is also the organization’s Treasurer and Chief Financial Officer (“CFO”) and the person who possesses the books and records of the organization at the organization’s office in Louisiana
- Spouse of CFO, Eva Stanton, a community organizer who is not employed by EODR
- Banker, Benjamin Butler, who is a president of a local bank (Bank) that provides a line of credit and loans to EODR
- Citizen, Dr. Hosta Daylily, who has a strong commitment to helping disaster relief victims
- Lawyer, George W. Kirk, who is also the organization’s Secretary
- CEO of local food bank/homeless shelter, George Thomas
- Spouse of food bank CEO, Daisy Thomas
- Accountant, E.P. Butler, who is the brother of Banker

Each member of the board has identical voting rights. The board has two committees, an executive committee and a finance committee, each consisting of five board members.

EODR’s day-to-day operations are managed by CEO, as the Executive Director, CFO, the operations manager (“OM”), and the fundraising manager (“FM”). CEO, CFO, OM, and FM are employed and compensated by EODR. Both OM and FM manage over 10% of the organization’s activities.

EODR’s board members receive no salary for serving as board members, although each member receives an expense allowance of \$1000 which is paid each year without any documentation to substantiate the expense amounts.

EODR reports compensation for CEO, CFO, OM and FM on EODR’s Forms W-2. During its 2008 tax year, EODR made 403(b) plan employer contributions of \$8,000 and \$7,000 to CEO and CFO, respectively, and paid \$7,000 and \$6,000 of health insurance premiums for CEO and CFO, respectively. CFO also received compensation of \$15,000 from REO, which was reported on REO’s Form W-2.

Citizen and Lawyer co-own a construction company, in which each has a 50% ownership interest. In addition, both of them sit on the board of directors of the local food bank and homeless shelter.

Several board members, including Accountant, Lawyer, and Board Chair, have accounts at the Banker's bank.

EODR has available a \$300,000 line of credit with Bank. EODR currently owes Bank \$200,000 for a secured loan it took out in 2008.

EODR also paid its FCEO \$165,000 during 2008 for services FCEO rendered to EODR as an independent contractor (not as an officer) during the period 2002-2006. FCEO no longer provides services to EODR. Because EODR had treated FCEO as an independent contractor, EODR reported the \$165,000 amount on the 2008 Form 1099-MISC, box 7. FCEO remains liable to EODR for a \$10,000 loan advanced in 2006; its terms are commercially reasonable, and FCEO has made all required periodic interest payments and is not in default.

The hours per week figures for these individuals are as follows: Board Chair (10), CEO (65), CFO (61), Spouse (1), Banker (1), Citizen (1), Lawyer/Secretary (5), Accountant (1), CEO of local food bank (1), spouse of food bank CEO (1), OM (45), FM (40).

These compensation and other arrangements are summarized in the table below:

<b>Name</b>	<b>Title</b>	<b>EODR W-2, Box 5</b>	<b>EODR 1099 MISC, Box 7</b>	<b>W-2 of related org., Box 5</b>	<b>Other</b>
Belle Hood	CEO/Exec. Director, Director	160,000	1000	0	15,000
Ed Stanton	CFO, Director	112,000	1000	15,000	13,000
Herbert Hellebore	Bd. Chair, Director	0	1000	0	
Eva Stanton	Director	0	1000	0	
George W. Kirk	Director and Secretary	0	1000	0	
Benjamin Butler	Director	0	1000	0	Bank contract
Dr. Hosta Daylilly	Director	0	1000	0	
E.P. Butler	Director	0	1000	0	
George Thomas	Director	0	1000	0	

Daisy Thomas	Director	0	1000	0	
J.L. Chamberlain	Operations Manager	153,000	0	0	
Ulysses R. Savannah	Fundraising Manager	79,000	0	0	
Freda Forsythia	Former CEO	0	165,000	0	10,000 loan owed to EODR

### POLICIES

EODR has a written conflict of interest policy that requires EODR's officers, directors, and employees to annually disclose potential conflicts of interest involving themselves, their family members, and their business interests on a questionnaire distributed by EODR's Operations Manager. The Operations Manager ensures that all questionnaires are completed, reviews them for conflicts, and submits to the Board for review any questionnaires that disclose actual or potential conflicts.

EODR does not have a joint venture policy, a document destruction or retention policy, or a whistleblower policy. EODR's board and executive committee substantiate all their meetings and actions within 30 days of the meetings and actions; EODR's finance committee documents most, but not all, of the actions it takes at its meetings. EODR's Chief Financial Officer prepares the Form 990, and will provide a final copy of the 2008 Form 990 to each of its board members before it is filed with the IRS. However, the board will not review the Form 990 before or after it is filed as part of its board activities.

EODR posts its Form 1023 application for tax exemption and its Forms 990 (current and prior three years) on its Web site. EODR makes its Form 990-T available to the public upon request. It also posts its audited financial statements, articles of incorporation, and bylaws on its Web site, but does not make its conflict of interest policy available to the public.

During 2008, EODR amended its articles of incorporation to change its registered agent with Louisiana, and amended its bylaws to require that any compensation arrangement involving any of its board members or officers be established pursuant to a process that satisfies the rebuttable presumption procedure available for section 4958 excess benefit transaction tax purposes (this process requires a review of compensation determinations by disinterested persons, use of appropriate comparability data, and contemporaneous documentation of the process).

EODR's contact and related information is as follows:

- Mailing address: 123 State Street, City, Louisiana 12345
- Web site: [www.EOfordisasterrelief.org](http://www.EOfordisasterrelief.org)
- Telephone number: XXX-555-1212
- EIN: 99-9999999
- DBA: EODR